

**ACCOUNTING****AND AUDIT**

# THE PROFESSIONAL COMPETENCE OF PUBLIC SECTOR INTERNAL AUDITORS IN BULGARIA – OPPORTUNITIES AND CHALLENGES

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**Abstract:** Public sector internal control continues to be a major issue due to its essential role in the governance of public funds and activities. This article focuses on internal audit and the problems and opportunities related to maintaining and developing the professional competence of internal auditors as a key prerequisite for the efficient performance of their audit engagements. The research of earlier and current audit practice and the acknowledgment of existing pitfalls provides a robust basis for improving this aspect of public sector internal control.

**Key words:** internal control, internal audit, professional competence.

**JEL:** H83.

Public sector internal control is indispensable in public sector governance. It is a major instrument employed in budget spending, its primary function being to ensure the necessary conditions for the legal, transparent and sound financial management of public funds and activities. Issues related to the different practical aspects of exercising public sector internal control are crucial at the current stage of reforms in the sphere. By adopting the *Development Strategy for Public Sector Internal Control in the Republic of Bulgaria in the Period from 2018 to 2020*, a vision has been designed for the further development and improvement of the internal control model that is currently employed. The strategic goals set for the three-year period indicate that effort

will primarily be focused on: enhancing governance responsibility in the public sector; improving the quality of internal audit; enhancing the coordination and communication between supervisory bodies; having the training and education system in the country actively involved in the process of preparing competent control staff (MF, Strategiya za razvitie na vatrechniya kontrol v publichniya sektor na Republika Balgariya 2018g - 2020g, 2017, pp. 17-27).

The focus of our attention will be on one of the specified strategic goals, that is, raising the quality of internal audit in the public sector. The **object** of this research is the professional competence of internal auditors and its **subject** are the aspects related to the development and maintenance of that competence. The **objective** of the research is to discuss issues related to developing and maintaining the proficiency of internal auditors and identify opportunities for resolving them.

In order to accomplish the objective of the research, we have set the following **tasks**:

1. To review the theoretical aspects of internal auditors' professional competence within the context of applicable international standards and Bulgarian laws that are relevant to internal control and internal audit in the public sector.
2. To summarise and analyse data from the internal audit practice in the public sector in Bulgaria about the manner in which internal auditors maintain and further develop their competence, as well as related problems.
3. To identify opportunities for overcoming existing difficulty so as to create the necessary environment for maintaining and developing the proficiency of internal auditors, which is an essential characteristic of the image of modern auditors.

For the purposes of our research, we have used data provided in the consolidated annual reports of the Ministry of Finance about public sector internal control in the Republic of Bulgaria in the sections related to internal audit and, in particular, maintaining the competence of internal auditors. The information we use in our research covers a period of six years, from 2012 to 2017.<sup>1</sup>

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<sup>1</sup> The choice of the researched time period is justified by the comparability of the information provided in the consolidated annual reports of the Ministry of Finance about the Internal Control in the Public Sector in the Republic of Bulgaria.

**1. The Professional Competence of Internal Auditors' within the Context of Applicable International Standards and Internal Audit Legislation in the Country**

In contemporary control practice, internal auditing is an independent and objective activity designed to add value and improve the operations of an organisation through its commitment to provide assurance and consultancy (IIA, *Mezhdunarodni standarti za profesionalnata praktika po vatreshen odit*, 2017). Internal audit is an essential element of public sector internal control within the context of the Financial Management and Control Systems introduced to the sector (**FMCS**) (*Zakon za finansovoto upravleniye i kontrol v publichniya sektor*, 2016), based on COSO, the International Internal Control Framework ("COSO", 2013). Internal audit is designed to help organisations accomplish their objectives by: *first*, identifying and evaluating any significant exposures to risk; *second*, evaluating the adequacy and effectiveness of some specific aspects of Financial Management and Control Systems (identifying, assessing and managing risk; compliance with laws, regulations and contracts; reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets and information; fulfilment of tasks and accomplishment of goals); *third*, making recommendations to improve the operations of organizations (*Zakon za vatreshniya odit v publichniya sektor*, 2016, Art. 5).

The professional competence of internal auditors is essential for the effective performance of their audit engagements. Proficiency is not a constant value and should not be approached as such due to the dynamic environment in which contemporary auditing is conducted. The International Standards for the Professional Practice of Internal Auditing, which are applicable to the public sector in our country, require that auditors shall meet their responsibilities competently and with due professional care. Rather than interpreting professional competence merely as a set of knowledge, skills and other competencies required to perform auditing engagements effectively, The International Standards for the Professional Practice of Internal Auditing also focus on considering current activities, trends and emerging issues to enable relevant advice and recommendations (IIA,

Mezhdunarodni standarti za profesionalnata praktika po vatreshen odit, 2017, p. 6). The Standards also emphasise that internal auditors must enhance their knowledge, skills and other competencies through continuing professional development (IIA, Mezhdunarodni standarti za profesionalnata praktika po vatreshen odit, 2017, p. 7). That requirement is explicitly stated in the Internal Auditors' Code of Ethics where competence is defined as one of the principles that internal auditors must employ when exercising their profession. According to the Code of Ethics, internal auditors shall only engage in those services, for which they have the necessary knowledge, skills and experience; they shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing and shall continually improve their proficiency and the effectiveness and quality of their services (IIA, Etichen kodeks na vatreshnite oditori).

These concepts about the nature, role and significance of the professional competence of internal auditors are covered by Bulgarian legislation in the Public Sector Internal Audit Act. Competence and professional care are an integral part of the principles, which internal auditors must comply with when conducting internal auditing (Zakon za vatreshniya odit v publichniya sektor, 2016, Art. 4). The Public Sector Internal Audit Act sets specific requirements, which appointed internal auditors must meet. Some of them refer to the professional competence of internal auditors and the minimum of qualifications and training required. The law provides that in order to be eligible for employment as internal auditors, applicants need to have completed a programme of higher education and hold a Master's or Bachelor's Degree as well as a Certificate for Internal Audit in the Public Sector, which has been issued by the Minister of Finance<sup>2</sup> or a valid internationally accredited Certificate for Internal Auditor (Zakon za vatreshniya odit v publichniya sektor, 2016, Art. 19).

The Public Sector Internal Audit Act also provides that ***internal auditors must maintain and develop their professional competence***.

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<sup>2</sup> The Certificate is awarded to applicants who have successfully sat the exam held in compliance with Ordinance No. H-7/04.10.2017 of the Minister of Finance on the requirements, procedure and manner for organizing and holding exams for awarding the Public Sector Internal Auditor Certificate.

Being responsible for the overall activity of internal audit units, Heads of IAU must annually prepare and present for approval to the Head of their organization **a plan for the professional training and development of internal auditors** in order to maintain audit personnel with sufficient knowledge, skills, experience and professional qualifications (Zakon za vatreshniya odit v publichniya sektor, 2016, Art. 27). The Internal Audit Manual of the Ministry of Finance also requires that internal auditors shall develop further their professional competence. The Manual recommends that internal auditors who hold a Public Sector Internal Auditor Certificate should do training courses of no less than 40 hours every year, while newly appointed internal auditors should receive 160 hours of training within the first year of their appointment (MF Narachnik za vatreshen odit Tom I Upravlenie na deynostta po vatreshniya odit, 2009, pp. 26-27).

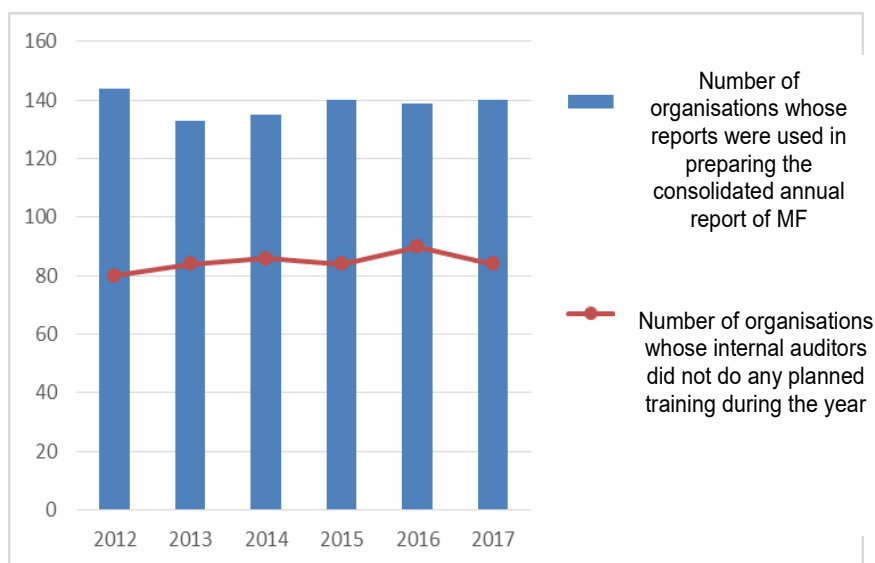
Professional competence is an essential element of the concept of internal auditing in general and a key requirement for providing high-quality auditing services, in particular.

In order to provide efficient internal auditing services, internal auditors must be knowledgeable, skilled and experienced. Their professional competence is of vital importance, since contemporary internal audit is a major tool employed by managers to improve the operations of organisations. The enormous responsibility which internal auditing entails renders it necessary that individuals, who practice the profession continuously, maintain and develop the professional competence they have initially acquired. Therefore, following the conceptual framework of the International Standards for the Professional Practice of Internal Auditing, Bulgarian legislation does not merely specify the **initial professional competence**, which individuals must have in order to qualify as internal auditors, but also focuses on the need to **continuously develop that competence**. Professional training and development plans, which the Heads of Internal Audit Units must annually present, are the mechanism employed to further develop the basic competencies of internal auditors and to upgrade their knowledge and skills. This, in turn, is a prerequisite for efficiently performing the auditing engagements and adding value by providing sound recommendations and advice on how the operations of organisations could be improved.

## 2. Challenges to Maintaining and Developing the Professional Competence of Internal Auditors in Public Sector Entities

Data about internal audit practice during the researched period (from 2012 to 2017) reveal that there are a number of **challenges to maintaining and developing the professional competence of internal auditors**. The information in the consolidated annual reports of the Ministry of Finance about this aspect of internal auditing may be summarized into several major findings:

***In the first place***, 56% or all reporting organisations<sup>3</sup> in 2012 **did not conduct any planned training for internal auditors** (See Fig. 1).



*Figure 1. Information about planned training for internal auditors in the public sector, which was not conducted in the period from 2012 to 2017*

<sup>3</sup> The number of reports submitted in the different years is as follows: 144 in the year 2012; 133 in 2013; 135 in 2014; 140 in 2015; 139 in 2016; 140 in 2017.

The percentage went up to 63% in 2013, rose to 64% in 2014 and then fell to 60% in 2015. The situation was quite similar in 2016 – 65% of all reporting organisations did not have their internal auditors doing any planned training, the percentage falling to 60% in 2017 (MF, Konsolidirani godishni dokladi za vatreshniya kontrol v publichniya sektor v Republika Balgariya za perioda 2012-2017 g.). Thus, the relative share of public sector organisations whose internal auditors did not do any planned training was substantial, varying between 56% and 65% during the researched period. This indicates that there are serious challenges to the implementation of plans for the professional training and development of internal auditors. After reviewing and summarizing the relevant information, which was provided in the consolidated annual reports of the Ministry of Finance, several major reasons were identified why a significant number of internal auditors in public sector entities did not do any planned professional training during the researched period: they had to perform urgent professional engagements; financial resources were insufficient; internal auditors attended some unplanned training; no planned training was organised.

***In the second place***, some internal auditors **did not do any professional training during some of the years**, which indicates the low efficiency of the process of designing and implementing plans for professional training and development. In 2013, for example, 44 internal auditors in 30 organisations did not take part in any training at all. Forty internal auditors in 30 organisations did not do any training in 2014. The number was even higher in 2015 (49 internal auditors in 29 organisations) and did not change substantially in 2016, when 48 internal auditors in 36 organisations did not engage in any professional training at all. There was a significant decrease in the number of organisations whose internal auditors did not do any professional training, the figure going down from 36 in 2016 to 16 in 2017 (MF, Konsolidirani godishni dokladi za vatreshniya kontrol v publichniya sektor v Republika Balgariya za perioda 2012-2017 g.). These data indicate that some of the organisations do not merely face difficulty in implementing the plans for the professional training and development of their internal auditors, but are confronted with daunting challenges in terms of maintaining the proficiency of their auditing staff.

*In the third place*, the consolidated annual reports of the Ministry of Finance also focus on the acquisition of an internationally accredited certificate for internal audit. The summary of the information provided for the period shows that the majority of **internal auditors did not benefit from the opportunity to have their professional competence recognized by acquiring such an international certificate**. It is evident from the reports submitted to the Ministry of Finance, that none of the internal auditors in reporting organisations acquired an international certificate for internal audit in 2012.<sup>4</sup> Only one internal auditor acquired an international certificate in 2013, and so did one internal auditor in 2014. None of the internal auditors in reporting organisations acquired such a certificate in 2015. The consolidated annual report for 2016 gives no data about international certificates being awarded to public sector internal auditors, while the consolidated annual report for 2017 pointed out that there were only four internal auditors who had acquired the international CGAP certificate in all public sector entities with internal audit units (MF, Konsolidirani godishni dokladi za vateshniya kontrol v publichniya sektor v Republika Balgariya za perioda 2012-2017 g.).

The acquisition of an international certificate may be approached as major step forward in raising the proficiency of internal auditors; yet, the analysis of relevant data reveals that acquiring such a certificate is currently an exception, rather than a well-established practice among internal auditors in the public sector in Bulgaria.

Based on the information provided in the consolidated annual reports of the Ministry of Finance and the findings about each year during the researched period, some of the **possible solutions to the problems which were identified include**: aligning the process of planned training to available financial and time resources; seeking alternative mechanisms for acquiring new knowledge and skills; employing the appropriate tools to motivate internal auditors to have their professional competence recognized by

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<sup>4</sup> According to the information provided in the Consolidated annual report on internal control in the public sector in Bulgaria about the year 2012, such certificates were awarded to three internal auditors in the State Fund Agriculture, yet data about the establishment were not included in the report.



acquiring internationally accredited certificates (e.g., better career-growth prospects, higher remuneration, etc.). ***A complex approach to existing difficulties in maintaining the professional competence of internal auditors within the researched six-year period indicates that they were persistently present in the internal auditing practice. They could therefore be identified as problems, rather than as challenges.*** Even if caused by objective factors, the inability of organisations to implement their annual plans about the training and professional development of internal auditors, entails a number of ***risks in terms of the quality of conducted auditing. Those risks could, in turn, reduce the potential of internal auditing to accomplish its objectives.*** It is therefore essential to identify appropriate tools for producing the desirable impact upon the professional competence of internal auditors in order to raise administrative capacity and professionalism in public sector internal auditing.

### 3. Possible Solutions to Problems Related to Maintaining and Upgrading the Professional Competence of Internal Auditors in the Public Sector

The Development Strategy for Public Sector Internal Control in the Republic of Bulgaria in the Period from 2018 to 2020 has identified a number of activities for improving the quality of internal auditing. Those activities relate to maintaining the professional competence of internal auditors through various training and qualification programmes and defining requirements and criteria applicable to individuals, who have already acquired a *Certificate as Public Sector Internal Auditors*, but must certify their continuous professional training (MF, Strategiya za razvitiye na vatreshniya kontrol v publichniya sektor na Republika Balgariya 2018 g. - 2020 g., 2017). Within the context of the training and qualification programmes for internal auditors which the Strategy proposes and with reference to the problems related to the involvement of internal auditors in such programmes, several ***specific solutions may be identified:***

***First, urgent professional engagements*** were reported by organisations as one of the factors ***preventing their internal auditors from***

**taking doing planned training. Organising e-training sessions** could be a solution to that problem. **The advantages offered by modern information technologies and their utilization in distance e-learning** will be of benefit to internal auditors who will thus be able to acquire **new knowledge and skills** while performing their professional engagements. Doing research about the specific types of training which is required, planning the training courses, organizing the contents of training in subject areas and syllabi and designing the necessary resources could help meet the demands of internal audit practice more efficiently.

Depending on the specific needs that have been identified, different types of training courses could be organized for different target groups:

- **Introductory training courses for newly appointed internal auditors;**
- **Continuing training courses for certified internal auditors who have been practising the profession;**
- **Refresher training courses for certified internal auditors who have not been practising** (The Development Strategy for Public Sector Internal Control in the Republic of Bulgaria in the Period from 2018 to 2020 provides that a system of criteria will be employed to ascertain that internal auditors continue their training after they have been awarded a certificate. Participation in such trainings could be one of the criteria in that system.);
- **Training courses for applicants for the Public Sector Internal Audit Certificate.**

The aim of organizing distance e-training courses for all target groups is to raise the proficiency of internal auditors by making more efficient use of limited available resources (time and money). An important fact to consider is that different target groups, and sometimes, even individuals within a target group, have specific needs. A further systematization could therefore **differentiate in greater detail between training courses for different target groups** (for example, by specifying proficiency levels for practising certified internal auditors according to their skills and work experience; by forming a separate group for uncertified trainee-auditors, etc.). It is also possible **to specify different types of training courses that would meet specific needs**, for example, those of different public sector

entities in which internal auditing is employed (municipalities, ministries and other budget spenders); to identify priority objectives and areas of auditing when planning the activity of internal audit units<sup>5</sup>, etc. ***Tailoring the training courses to the specific needs of the different target groups, the types of public sector entities and identified key objectives and areas of auditing and designing adequate training programmes could provide the prerequisites for upgrading the proficiency of internal auditors.*** Distance-learning courses do not render other forms of training irrelevant or less necessary. Rather, they offer a cost-efficient alternative of traditional training for developing the skills and knowledge which internal auditors have already acquired.

***Second, internal auditors in some reporting organisations did not do any planned training but attended unplanned training courses.*** Hence, the focus of attention when planning training courses for internal auditors should be on available resources, as well as on ***aligning the planning process to specific needs***. The Internal Audit Manual describes the contents of annual plans for professional training and development (the elements of the plan, stages in the designing process, identifying objectives and needs, selecting adequate training methods, etc.) (MF, Narachnik za vatreshen odit Tom I Upravlenie na deynostta po vatreshniya odit, 2009, p. 26-29). Designing the plans for professional training and development is a responsibility of the Head of the Internal Audit Unit (Zakon za vatreshniya odit v publichniya sektor, 2016, Art. 27, Para.1). Since the Heads of Internal Audit Units are supposed to be aware of the specific needs and skills of each member of their team, they should only plan training courses that are absolutely necessary to avoid the waste of valuable resource. The fact that internal auditors in some reporting organizations did not do any planned training, but attended unplanned training courses, indicates a number of issues to be considered when developing the annual plans, e.g. identifying objective needs and aligning planned and held training to them; determining the priorities for planned training; ensuring staff involvement and assessing the possibility to conduct planned training.

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<sup>5</sup> According to the provisions of The Public Sector Internal Audit Act in Art. 48, Para. 1, Point 3, the Minister of Finance shall give instructions for the priority objectives and areas of audit in the planning of internal audit activities.

Within this context, organisations need to be given **greater assistance in terms of methodology and even guidelines about the process of planning the professional training and development of their internal auditors**. Such guidelines could be useful by providing details about the planning process, for example, research activities, need analysis and assessment, the design of a detailed and structured programme, relevance to the training courses that are offered, planned deadlines and permissible deviations from the initial parameters of the plan. This will enable organisations and internal audit units in particular, to fully benefit from training opportunities within the limits of available resources and meet the learning needs of internal auditors by selecting the most suitable training programmes. **The accomplishment of the two objectives is a prerequisite for more efficient implementation of the plans for professional training and development of internal auditors.**

**Third**, providing methodological assistance to organisations in the design of plans for the professional training and development of their internal auditors and employing up-to-date methods and techniques in the training process require the involvement of external institutions and experts. At the same time, the need to have various activities initiated and implemented by the managers of organisations should not be underestimated, either. High-quality performance of audit engagements and the concept of internal audit in general imply an **institutional environment that not only requires the acquisition of specific basic competence, but also encourages continuous professional development as an essential characteristic of the image of modern auditors**. Within this context, budget spenders need to focus on the following aspects: **first, the established environment for supervising human resources management** (implemented policies and practices related to the training, performance appraisal, career growth and remuneration) and **staff proficiency**; **second, identified problems and their underlying causes should be approached as risks** since they may prevent internal auditors from further developing their professional competence by taking part in training courses that meet their individual demands. In order to successfully manage and reduce those risks, it is necessary to design and implement adequate control activities.

We could summarise the **findings** of our research as follows:

**First**, the importance of internal audit services to good governance and the enormous responsibility of internal auditors, require high proficiency and extensive practical knowledge and skills that should be continuously upgraded and improved. Due to the significance which auditors' proficiency has for the quality performance of their audit engagements, ensuring the further development of that competence must be approached by the heads of public sector entities as a key condition for improving the operations of their organisations.

**Second**, professional competence is a dynamic set of knowledge, skills and work experience. Annual plans for professional training should therefore ensure the systematic, consistent and purposeful development of professional competence through training programmes, which upgrade the knowledge and skills that internal auditors have already acquired, based on an objective appraisal of demands. As the findings of this research indicate, there are a number of serious issues in terms of maintaining and developing auditors' proficiency. Ignoring those issues could reduce the overall efficiency of internal auditing.

**Third**, joint projects that are initiated by experts and managers and employ modern training methods and techniques for raising the proficiency of internal auditors would contribute to consolidating the efficiency of internal auditing in the financial management and governance of public funds and activities. When seeking the solutions to related problems, partnerships involving the Ministry of Finance, representatives of audit companies and universities, heads of public sector entities and internal audit units, would make it possible to produce a complex impact on the audit practice by employing adequate and effective tools.

In **conclusion**, the optimization of the processes related to continuously raising the proficiency of internal auditors is a major requirement for improving the quality of internal audit and accomplishing its primary objective. Consistent and purposeful effort in this respect is an objective demand of the audit practice, since public sector entities nowadays operate in an extremely dynamic environment. The employment of modern methods and techniques in specialized training courses for internal auditors is in line

with the Development Strategy for Public Sector Internal Control, which provides for the implementation of an efficient and modern policy in the area and would consolidate the role of internal auditing as a key element of the good governance of public funds and activities.

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# BUSINESS management

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